



C O N T E N T S

CHAPTER 1

MIDDLE-CLASS ECONOMICS: THE ROLE OF PRODUCTIVITY, INEQUALITY, AND PARTICIPATION 21

THE PROGRESS OF THE U.S. ECONOMIC RECOVERY 22

The Recovery in GDP and Labor Markets 26

A BRIEF HISTORY OF MIDDLE-CLASS INCOMES IN THE POSTWAR
PERIOD 29

The Age of Shared Growth (1948-1973) 31

The Age of Expanded Participation (1973-1995) 31

The Age of Productivity Recovery (1995-2013) 32

The Importance of Productivity, Inequality, and Participation . 33

THE DRIVERS OF MIDDLE-CLASS INCOMES: AN INTERNATIONAL
COMPARISON 34

Labor Productivity Growth 34

Income Inequality 35

Labor Force Participation 36

THE 2015 ECONOMIC REPORT OF THE PRESIDENT 39

CONCLUSION 40

CHAPTER 2

THE YEAR IN REVIEW AND THE YEARS AHEAD 41

KEY EVENTS OF 2014 43

Aggregate Output Growth during the Year 43

Fiscal Policy 44

Monetary Policy 48

Financial Markets 49

International Developments 51

DEVELOPMENTS IN 2014 AND THE NEAR-TERM OUTLOOK 67

Consumer Spending 67

Housing Markets 72

<i>Investment</i>	79
<i>State and Local Governments</i>	81
<i>Labor Markets</i>	82
THE LONG-TERM OUTLOOK	87
<i>The 10-Year Forecast</i>	87
<i>GDP Growth over the Long Term</i>	92
CONCLUSION	101

CHAPTER 3

ACHIEVEMENTS AND CHALLENGES IN THE U.S. LABOR MARKET

THE STATE OF THE U.S. LABOR MARKET IN 2014	105
LABOR FORCE PARTICIPATION	112
<i>A Longer-Term Perspective on Labor Force Participation</i>	112
<i>Decomposing the Decline in Participation Since 2007</i>	114
<i>Outlook for the Participation Rate</i>	121
LONG-TERM UNEMPLOYMENT	122
<i>Trends in Long-Term Unemployment</i>	123
<i>Factors behind Elevated Rates of Long-Term Unemployment</i> ..	126
<i>Why Long-term Unemployment Matters</i>	128
PART-TIME WORK FOR ECONOMIC REASONS	128
<i>Patterns in Part-Time For Economic Reasons</i>	129
<i>The Outlook for the Rate of Part-Time for Economic Reasons</i> ..	132
LABOR MARKET FLUIDITY	134
<i>Trends in Labor Market Fluidity</i>	136
<i>Potential Consequences of Reduced Fluidity</i>	139
WAGE GROWTH AND JOB QUALITY	141
<i>Job Growth in 2014</i>	142
<i>Patterns in Wage Growth since the 1980s</i>	142
<i>The Rise of the Skill Premium and Employment Growth in High- and Low-Skill Occupations</i>	145
<i>Broader Measures of Job Quality</i>	149
THE AGENDA FOR A STRONGER LABOR MARKET	151

CHAPTER 4

THE ECONOMICS OF FAMILY-FRIENDLY WORKPLACE POLICIES

RECENT CHANGES IN AMERICAN FAMILY LIFE AND THEIR IMPLICATIONS FOR WORK	159
--	-----

<i>Attachment to the Labor Force and Educational Attainment Have Increased Significantly Among American Women</i>	160
<i>Families Are Adjusting to New Caregiving Needs</i>	162
<i>The Effects of Work-Family Conflict</i>	166
ACCESS TO FAMILY-FRIENDLY WORKPLACE POLICIES	169
<i>Access and Use of Leave in the United States</i>	170
<i>Workplace Flexibility Access in the United States</i>	175
<i>Disparities in Access to Paid Leave and Flexible Work Arrangements</i>	178
STATE AND LOCAL INITIATIVES TO EXPAND ACCESS TO WORK-FAMILY FRIENDLY POLICIES	184
<i>State Paid Family Leave</i>	184
<i>State Paid Sick Leave</i>	187
<i>Right-to-Request Provisions</i>	189
THE ECONOMIC CASE FOR FAMILY-FRIENDLY WORKPLACE POLICIES	192
<i>Impact of Leave and Flexibility on Worker Health and Absenteeism</i>	193
<i>The Role of Family-Friendly Policies in Worker Recruitment, Retention, and Productivity</i>	195
<i>The Business Case for Wider Adoption of Flexible Workplace Practices and Policies</i>	199
CONCLUSION	201
CHAPTER 5	
BUSINESS TAX REFORM AND ECONOMIC GROWTH	203
THE SOURCES OF PRODUCTIVITY GROWTH	205
THE HISTORICAL AND INTERNATIONAL CONTEXT FOR BUSINESS TAX REFORM	206
THE PRESIDENT’S APPROACH TO BUSINESS TAX REFORM	217
THE POTENTIAL FOR BUSINESS TAX REFORM TO BOOST PRODUCTIVITY	219
<i>Encouraging Domestic Investment</i>	219
<i>Improving the Quality of Investment</i>	224
<i>Reducing the Inefficiencies of the International Tax System</i> ...	231
<i>Investing in Infrastructure</i>	234
FOUR ALTERNATIVE APPROACHES TO BUSINESS TAX REFORM	235
<i>Eliminate the Corporate Income Tax</i>	235

<i>Cut the Top Individual Rate in Parallel with the Corporate Rate</i>	236
<i>Adopt a Territorial Tax System</i>	237
<i>Allow Expensing for New Investment</i>	238
CONCLUSION	239

CHAPTER 6

THE ENERGY REVOLUTION: ECONOMIC BENEFITS AND THE FOUNDATION FOR A LOW-CARBON ENERGY FUTURE..... 241

THE ENERGY REVOLUTION: HISTORICAL PERSPECTIVE AND ECONOMIC BENEFITS	243
<i>The Energy Revolution in Historical Perspective</i>	243
<i>GDP, Jobs, and the Trade Deficit</i>	253
<i>Energy Prices, Households, and Businesses</i>	256
<i>Infrastructure Implications of the Energy Revolution</i>	262
THE ENERGY REVOLUTION AND ENERGY SECURITY: A MACROECONOMIC PERSPECTIVE	265
<i>Trends in Oil Import Prices and Shares</i>	267
<i>Macroeconomic Channels of Oil Price Shocks</i>	269
A PATH TO A LOW-CARBON FUTURE	272
<i>A Case for Climate Action</i>	272
<i>The Climate Action Plan</i>	275
<i>Reducing Emissions through Improved Efficiency</i>	278
<i>The Role of Natural Gas in Lowering CO₂ Emissions</i>	280
<i>Supporting Renewables, Nuclear, Cleaner Coal, and Cleaner Transportation</i>	283
<i>International Leadership</i>	287
CONCLUSION	289

CHAPTER 7

THE UNITED STATES IN A GLOBAL ECONOMY

MULTILATERAL TRADE	293
<i>The Growth of U.S. and World Trade</i>	294
FREE TRADE AGREEMENTS	297
<i>Current Trade Negotiations</i>	301
THE IMPLICATIONS OF TRADE	304
<i>Classic Gains from Trade</i>	304
<i>The Labor Market Implications of Trade</i>	306
DEVELOPMENT BENEFITS OF TRADE	310

<i>Global Growth</i>	311
<i>Gender Equality</i>	312
<i>Political Cooperation</i>	313
<i>Environmental Protection</i>	313
FINANCIAL FLOWS	316
<i>Composition of International Capital Flows</i>	318
<i>Challenges in Regulating Global Financial Markets</i>	324
CONCLUSION	328
REFERENCES	331

APPENDIXES

A.	Report to the President on the Activities of the Council of Economic Advisers During 2014	365
B.	Statistical Tables Relating to Income, Employment, and Production	379

FIGURES

1.1a.	Global Trade Flows in the Great Depression and Great Recession ..	22
1.1b.	Household Net Worth in the Great Depression and Great Recession	23
1.2.	Average Monthly Nonfarm Employment Growth, 2008-2014	27
1.3.	Unemployment Rate and Consensus Forecasts, 2008-2014	28
1.4.	Real Hourly Earnings, Production & Nonsupervisory Workers, 2010-2014	28
1.5.	Real Median Family Income, 1985-2013	29
1.6.	Growth in Real Average Income for the Bottom 90 Percent, 1950-2013	35
1.7.	Labor Productivity Growth, 1951-2013	36
1.8.	Share of Income Earned by Top 1 Percent	37
1.9.	Prime-Age Male Labor Force Participation Rates, 1991-2013	37
1.10.	Prime-Age Female Labor Force Participation Rates, 1991-2013	38
2.1.	Unemployment Rate, 1975-2014	42
2.2.	Mean GDP Growth, 2007-2014	44
2.3.	Federal Budget Deficit, 1950-2016	48
2.4.	Market-Implied Date of Initial Federal Funds Rate Increase, 2014	50
2.5.	Nominal Long- and Short-Term Interest Rates, 2014	50
2.6.	Falling Euro Area Inflation, 2011-2014	53
2.7.	Euro Area Sovereign Interest Rate Spreads over Germany, 2007-2015	53
2.8.	Euro Area Unemployment and Real Interest Rates, December 2014	58
2.9.	China: Real GDP Growth, 1993-1994	60
2.10.	Credit to Nonfinancial Corporations and Households, 2004-2014	60
2.11.	Select Dollar Exchange Rates, 2000-2015	64

2.12.	Trade in Goods, 2000-2014	65
2.13.	Trade in Services, 2000-2014.	65
2.14a.	Services and Goods Composition: Imports, 2013	66
2.14b.	Services and Goods Composition: Exports, 2013.	66
2.15.	Household Deleveraging, 1990-2014	69
2.16.	Consumption and Wealth Relative to Disposable Personal Income (DPI), 1950-2014.	69
2.17.	Housing Starts, 1960-2014	73
2.18.	National House Price Indexes, 2000-2014.	74
2.19.	Home Prices and Owners' Equivalent Rent, 1975-2014	75
2.20.	U.S. Population Distribution by Age and Gender, 2013 Census	75
2.21.	Home Builder Sentiment Index, 2000-2014	77
2.22.	30-Year Fixed Mortgage Rates, 2000-2014	77
2.23.	Purchase and Refinance Activity, 2007-2014	78
2.24.	Capital Services per Unit of Real Output, Private Business Sector, 1948-2014	80
2.25.	Share Buy Backs vs. Investment, Nonfinancial Corporate Business, 1952-2014	80
2.26.	Real State and Local Government Purchases During Recoveries ...	81
2.27.	State and Local Pension Fund Liabilities, 1952-2014.	83
2.28.	Nonfarm Payroll Employment, 2007-2014	83
2.29.	Unemployment Rate by Duration, 1990-2014	84
2.30.	Inflation and Inflation Expectations Ten Years Forward, 2000-2014	86
2.31.	Hourly Compensation Increases vs. Inflation Expectations, 2000-2014	86
3.1.	Actual and Consensus Forecast Unemployment Rate, 2008-2014	106
3.2.	Elevation and Recovery of Broader Measures of Unemployment	107
3.3.	Unemployment in Non-U.S. OECD, Euro Area, and United States, 2000-2013	109
3.4.	Average Monthly Job Growth by Year, 2007-2014	110
3.5.	Labor Force Participation by Gender, 1950-2014	114
3.6.	Labor Force Participation Decomposition, 2009-2014	115
3.7.	Detrended Participation Rate and (Inverted) Unemployment Gap, 1960-2014	117
3.8.	Share of Recovery in Overall Unemployment Rate Due to Declines in Short- and Long-Term Unemployment	122
3.9.	Unemployment Rate by Duration, 2000-2014	123
3.10.	Share of Unemployed Workers by Duration of Unemployment, 2002-2014	124
3.11.	Increase in Long-Term Unemployment as a Percent Increase in Overall Unemployment Rate.	125
3.12.	Long-term Unemployed as Share of Total Unemployed, 1960-2014	125
3.13.	Monthly Job Finding Rates by Duration of Unemployment in Previous Month, December 2014	127
3.14.	Net Change in Employment Since January 2010, Household Survey Estimates	129

3.15.	Rates of Part-Time Work, 1960-2014.....	130
3.16.	Change in Share Part-Time for Economic Reasons Per Percentage-Point Change in the Unemployment Rate, 1957-2014.....	131
3.17.	Share Part-Time for Economic Reasons, Actual and Predicted, 2005-2014.....	132
3.18.	Share of Employees Working Part-Time for Economic Reasons, by Industry, 1995-2014	134
3.19.	Hires, Separations, and Job-to-Job Flow Rates, 2000-2013	135
3.20.	Job Opening Rates, 2000-2014	136
3.21.	Trends in Hires and Separations, 1995-2012	138
3.22.	Employer, Occupation, and Industry Transitions, 1983-2013.....	138
3.23.	Firm and Establishment Entry Rates, 1978-2012.....	140
3.24.	Change in Job Growth vs. Average Earnings by Industry, 2013-2014	143
3.25.	Wage Inequality, 1979-2014	145
3.26.	College Income Premium by Gender, 1963-2013	146
3.27.	Percent of Workers Receiving Employer-Sponsored or On-the-Job Training, 1996-2008.....	147
3.28.	Change in Employment by Detailed Occupation, 1989-2014	148
3.29.	Changes in Employment by Occupational Wage Percentile, 1979-2012	148
3.30.	Share of Workers With an Offer of Employer-Sponsored Insurance Coverage, by Education, 1997-2013.....	150
3.31.	Share of Workers Included in Employer-Provided Retirement Plan, by Education, 1997-2013.....	150
3.32.	Share of Full-Time Workers Paid a Salary, 1979-2013	151
4.1.	Labor Force Participation by Sex, 1948-2014	161
4.2.	Percent of Young Men and Women with a Bachelor's Degree or Higher, 1964-2014	161
4.3.	Employed Married Women's Contribution to Family Earnings, 1970-2013	163
4.4.	Percent of Households with Children in Which All Parents Work, 1968-2014	164
4.5.	Fathers' Reporting Role in Child Care Activities for Selected Years.....	165
4.6.	Fathers' Average Weekly Time Use	165
4.7.	Percent of All Unpaid Eldercare Providers Who Are Employed, 2011-2012	167
4.8.	Share of Households with Children under 18 and Adults Over 65, 1968-2014	167
4.9.	Percentage of Mothers and Fathers Reporting Work-Family Conflict for Selected Years.....	168
4.10.	Percentage of Full-Time Workers Who Report Work-Family Conflict for Selected Years.....	168
4.11.	Reason for Not Taking Needed Leave, 2011.....	176
4.12.	Percent of Firms Offering Flexibility in the Scheduling of Hours, 2014	176
4.13.	Percent of Workers with Access to Flexible Work Arrangements, 2011	177

4.14.	Percent of Firms Offering Flexibility in the Location of Work, 2014.....	179
4.15.	Percent of Firms Offering Flexibility in the Number of Hours of Work, 2014.....	179
4.16.	Access to Scheduling and Location Flexibility by Industry, 2011.....	181
4.17.	Access to Paid and Unpaid Leave by Industry, 2011.....	181
4.18.	Average Absence Rates With and Without Flexible Work Scheduling, 1990.....	195
4.19.	The Need for Workplace Flexibility, 2014.....	197
5.1.	Sources of Productivity Growth Over Selected Periods, 1948-2013.....	207
5.2.	Statutory Corporate Tax Rates in the U.S. and OECD, 1981-2013.....	207
5.3.	Statutory Corporate Income Rates, 2014.....	208
5.4.	Effective Tax Rates in the G-7, 2006-2009.....	209
5.5.	Effective Marginal Tax Rates in the G-7, 2014.....	210
5.6.	Effective Marginal Tax Rates in Several Tax Systems.....	212
5.7.	Effective Marginal Tax Rates by Source of Financing, 2014.....	228
5.8.	Effective Marginal Tax Rates, 2014.....	230
5.9.	C Corporation Share of Total Business Receipts, 1980-2011.....	232
6.1a.	U.S. Energy Consumption by Source, 1775-2013.....	245
6.1b.	U.S. Energy Consumption by Source 2005-2013.....	245
6.2a.	U.S. Petroleum Consumption, 1950-2030.....	246
6.2b.	U.S. Consumption of Motor Gasoline, 1950-2030.....	246
6.3.	U.S. Petroleum Production, 1950-2030.....	247
6.4.	U.S. Petroleum Net Imports, 1950-2030.....	248
6.5.	U.S. Natural Gas Production, 1950-2030.....	249
6.6.	U.S. Fuel Ethanol and Biodiesel Consumption, 1981-2013.....	250
6.7.	Petroleum, Biofuels, and Natural Gas Production, 2008-2013.....	251
6.8.	Change in Wind Power Generation Capacity, 2010-2013.....	251
6.9.	Total Monthly Wind and Solar Energy Production, 2000-2014.....	252
6.10.	Contributions of Oil and Natural Gas Production to GDP Growth, 1995-2014.....	253
6.11.	Coal, Oil and Natural Gas Employment, 1949-2013.....	254
6.12.	Solar-Related Employment, 2010-2014.....	255
6.13.	Total and Petroleum Trade Deficits, 1995-2013.....	256
6.14.	Annual Crude Oil and Natural Gas Spot Prices, 1995-2015.....	257
6.15a.	Wholesale and Residential Natural Gas Prices, 1995-2014.....	258
6.15b.	Retail Electricity Prices and Fuel Costs, 1995-2014.....	258
6.16.	WTI Spot Price: Nominal and Real, 1970-2014.....	268
6.17.	Net Import Shares of Petroleum Products, 1950-2013.....	269
6.18.	Energy Related Carbon Dioxide Emissions, 1980-2030.....	279
6.19.	U.S. Energy Intensity, 1950-2011.....	279
6.20a.	U.S. Per Capita Consumption of Gasoline and Real Gasoline Prices, 2000-2014.....	281
6.20b.	Corporate Average Fuel Economy Standard.....	281
6.21.	U.S. Natural Gas Production and Wholesale Prices, 2011-2030.....	282

6.22	Change in Monthly Electricity Generation and Prices, 2008–2014.	282
6.23	Monthly Share of Non-Hydro Renewables in Net Power Generation, 2001–2014.	285
6.24	U.S. Motor Gasoline and Diesel Fuel Consumption, 2000–2030.	287
6.25	World Carbon Dioxide Emissions, 1980–2012.	289
7.1	Global GDP and Exports of Goods and Services, 1960–2013	294
7.2	Ratio of U.S. Duties Collected to Total Imports, 1891–2013	295
7.3	Global Tariff Rates by Income Group, 1988–2012.	296
7.4	U.S. Trade in Services, 1980–2014.	297
7.5	Growth in Real U.S. Goods Trade Around Free Trade Agreements.	302
7.6	Characteristics of Export-Intensive and Non-Export-Intensive Industries, 1989–2009.	307
7.7	Growth of Global GDP, Trade in Goods and Services, and Financial Flows, 1985–2013	317
7.8	U.S. Equity Home Bias, 2000–2003	323

TABLES

1.1	Components of U.S. Real GDP Growth, Percent Change at an Annual Rate	23
1.2	Middle-Class Income Growth and its Determinants, 1948–2013	30
1.3	Counterfactual Scenarios for Productivity, Inequality, and Participation.	34
2.1.	Selected Interest Rates, 2014	52
2.2.	Administration Economic Forecast	88
2.3.	Supply-Side Components of Actual and Potential Real GDP Growth, 1953–2024	99
3.1.	Tracking the Recovery across Race, Gender, Age, and Level of Educational Attainment	111
3.2.	Comparison of Participation Rate Estimates	116
3.3.	Wage and Earnings Gains Associated with Job Switching	141
3.4.	Average Annual Percent Change in Real Productivity, Compensation, and Wages, 1980–2014	144
4.1.	Access to Leave (ATUS), 2011.	171
4.2.	Access to Leave (NCS), 2014	173
4.3.	Leave Use and Hours, 2011	175
4.4.	Access to Leave and Workplace Flexibility by Demographic, Educational, and Worker Characteristics, 2011	182
4.5.	State Leave Policies as of January 2015	185
4.6.	Local Right to Request Laws	191
5.1.	U.S. Controlled Foreign Corporation Profits Relative to GDP, 2010	214
6.1.	Major Oil Disruptions, 1973–2005.	267
7.1.	U.S. Free Trade Agreements	300
7.2.	Gross Global Financial Flows, 1985–2013	319
7.3.	Additional Basel III Components.	327

BOXES

Box 1-1:	Macroeconomic Rebalancing	24
Box 2-1:	Private Domestic Final Purchases as a Predictive Indicator of GDP	45
Box 2-2:	International Comparison of Growth Performance	54
Box 2-3:	Imported Petroleum Prices and the Economy.	62
Box 2-4:	U.S. Household Wealth in the Wake of the Crisis and Implications for Wealth Inequality	70
Box 2-5:	Policy Proposals to Raise Long-Run Potential Output	90
Box 2-6:	Forecasting the Long-Run Interest Rate	94
Box 3-1:	Unemployment Across Gender, Race, and Ethnicity Groups: The Situation for Men of Color	108
Box 3-2:	Changes in Labor Force Participation for Different Subpopulations	113
Box 3-3:	Post-Recession Participation in the United States and United Kingdom	118
Box 3-4:	Immigration Reform and Labor Markets	154
Box 4-1:	International Comparisons: Access to Paid Leave in Other Countries	172
Box 4-2:	Why is There Such a Large Difference in Reported Prevalence Between the American Time Use Survey, the National Compensation Survey, and the National Study of Employers?	174
Box 4-3:	Small Business and Manufacturing	180
Box 4-4:	January 2015 Presidential Initiatives to Expand Leave Access for Federal Employees	183
Box 4-5:	Japan's Strategy to Grow the Economy by Increasing Women's Involvement.	190
Box 4-6:	Reimagining the Structure of Work at JetBlue	199
Box 5-1:	Corporate Inversions	213
Box 5-2:	Base Erosion and Profit Sharing	215
Box 5-3:	Improving the Tax Code for Families	220
Box 5-4:	Temporary Countercyclical Policies to Promote Investment	226
Box 6-1:	Natural Gas Exports	259
Box 6-2:	U.S. Oil Production in a Global Perspective, and Implications for U.S. GDP	263
Box 6-3:	Selected Administration Initiatives under the Climate Action Plan	277
Box 7-1:	Trade in Ideas	298
Box 7-2:	Employment Impacts of Trade with China	308
Box 7-3:	Have U.S. Trade Deficits Reduced Output and Employment?	320